



**COUNTY OF LOS ANGELES  
DEPARTMENT OF AUDITOR-CONTROLLER**

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July 10, 2012

ASST. AUDITOR-CONTROLLERS

ROBERT A. DAVIS  
JOHN NAIMO  
JAMES L. SCHNEIDERMAN

TO: Supervisor Zev Yaroslavsky, Chairman  
Supervisor Gloria Molina  
Supervisor Mark Ridley-Thomas  
Supervisor Don Knabe  
Supervisor Michael D. Antonovich

FROM: Wendy L. Watanabe  
Auditor-Controller

SUBJECT: **CASA EDITHA FOUNDATION (dba AVA LYN'S GROUP HOME) - A  
GROUP HOME FOSTER CARE CONTRACT PROVIDER – FISCAL  
REVIEW**

At the request of the Department of Children and Family Services (DCFS), we reviewed the fiscal operations of Casa Editha Foundation, which does business as Ava Lyn's Group Home (Casa or Agency), from January 1 to December 31, 2010. Casa is licensed to operate one group home (GH) with a resident capacity of six children. Casa is located in the Fifth Supervisorial District.

DCFS and the Probation Department contract with Casa to care for foster children placed in the Agency's home. DCFS paid Casa \$6,863 per child per month, based on a rate determined by the California Department of Social Services, for a total of \$287,584 in 2010.

The issuance of our report to your Board was delayed in part by changes in federal and State regulations regarding possible repayment of questioned costs from fiscal audits. To enable Casa to begin taking corrective action as soon as possible, we discussed our findings and recommendations with Agency management on August 19, 2011.

**Summary of Findings**

We identified \$15,331 in unallowable expenditures, and \$4,885 in unsupported/ inadequately supported expenditures. In addition, the Agency needs to submit a plan to DCFS showing how it will repay its payroll tax liability without using current period foster care funds, and needs to work with DCFS to resolve some potential

overpayments. Casa also needs to strengthen its controls over its accounting and disbursement procedures, payroll/personnel files, independent contractors, fixed assets, and file its Semi-Annual Expenditure Reports timely. Details of our findings are discussed in Attachment I.

We have recommended that DCFS resolve the questioned expenditures, and collect any disallowed amounts. DCFS should also ensure that Casa management takes action to address the recommendations in this report, and monitor to ensure that the actions result in permanent changes.

### **Review of Report**

Casa's management declined to have a formal exit conference. The Agency's response, which is incorporated into DCFS' Fiscal Corrective Action Plan (Attachment II), indicates general agreement with our findings and recommendations. DCFS has instructed the Agency to establish a repayment agreement with the Los Angeles County Treasurer and Tax Collector for the total questioned costs of \$20,216.

This audit is not intended to be, and does not constitute, the discovery or identification of an overpayment for purposes of the federal Improper Payments Act, related California State laws, including but not limited to Welfare and Institutions Code sections 11466.23, 11466.235, 11466.24, etc., nor State regulations intended to implement either the federal Improper Payments Act or related provisions in State law. This audit is intended solely to assist DCFS in managing its contractual relationships. Consequently, this report will be forwarded to DCFS, in order that it might take further action, as it deems appropriate, based on its contents. Such further action may, or may not, include the discovery or identification of an overpayment for purposes of federal or State law.

We thank Casa's management and staff for their cooperation during our review. Please call me if you have any questions, or your staff may contact Robert Campbell at (213) 253-0101.

WLW:JLS:RGC:MWM

### **Attachments**

c: William T Fujioka, Chief Executive Officer  
Philip L. Browning, Director, DCFS  
Jerry E. Powers, Chief Probation Officer  
Reaver E. Bingham, Deputy Chief, Probation Department  
Edith Avanzado, Executive Director, Casa Editha Foundation  
Board of Directors, Casa Editha Foundation  
Cora Dixon, Bureau Chief, Foster Care Audits Bureau, CA Dept of Social Services  
Commission for Children and Families  
Public Information Office  
Audit Committee

**Casa Editha Foundation dba Ava Lyn's Group Home**  
**Group Home Contract Provider**  
**Fiscal Review**

**REVIEW OF EXPENDITURES/REVENUES**

We identified \$15,331 in unallowable expenditures, and \$4,885 in unsupported/inadequately supported expenditures. In addition, DCFS and Casa Editha Foundation, which does business as Ava Lyn's Group Home (Casa or Agency), will need to work together to resolve some potential overpayments. Details of these expenditures/overpayments are discussed below.

**Applicable Regulations and Guidelines**

Casa is required to operate its group home (GH) in accordance with the following federal, State, and County regulations and guidelines:

- GH Contract, including the Auditor-Controller Contract Accounting and Administration Handbook (A-C Handbook)
- Federal Office of Management and Budget Circular A-122, Cost Principles for Non-Profit Organizations (Circular A-122)
- California Department of Social Services Manual of Policies and Procedures (CDSS-MPP)
- California Code of Regulations, Title 22 (Title 22)

**Unallowable Expenditures**

We identified \$15,331 in unallowable expenditures, consisting of payments of prior years' payroll taxes, penalties, and interest to the Internal Revenue Service (IRS); late fees charged by utility companies; and a California Department of Social Services penalty. Circular A-122 Sections 16 and 23 indicate that penalties and interest are unallowable expenditures. In addition, liabilities that should have been paid with prior year GH funds, such as payroll tax liabilities, cannot be paid with subsequent year GH Program funds.

**Unsupported/Inadequately Supported Expenditures**

A-C Handbook Section A.3.2 states that all expenditures must be supported by original vouchers, invoices, receipts, canceled checks, or other supporting documentation. Unsupported expenditures will be disallowed upon audit.

We identified \$4,885 in inadequately supported expenditures. Specifically:

- \$2,911 in payments made to "cash". The Agency's supporting documentation did not identify how the funds were spent, or how the expenditures benefitted the GH Program.
- \$1,974 in automobile, restaurant, maintenance, utility, subscription, and insurance payments. The Agency provided cancelled checks, but no receipts, or the receipts provided did not substantiate that the expenditures were related to the GH Program.

**Recommendations**

1. **DCFS management resolve the \$20,216 (\$15,331 + \$4,885) in questioned expenditures and collect any disallowed amounts.**

**Casa management:**

2. **Ensure that foster care monies are used for allowable expenditures.**
3. **Maintain adequate supporting documentation for all Agency expenditures, including original itemized invoices and receipts.**

**DELINQUENT PAYROLL TAX LIABILITY**

According to IRS documents, as of May 11, 2011, the Agency owed \$16,756 in delinquent federal payroll taxes, penalties, and interest. Circular A-122 Sections 16 and 23 state that penalties and interest are unallowable expenditures. DCFS needs to ensure that Casa does not use foster care funds to pay its penalties and interest. In addition, because the delinquent payroll taxes originated in a previous contract year, Casa may not use current period foster care funds to pay this liability. Because Casa had negative net assets of \$99,648 in 2010, it is unclear how the Agency will pay its delinquent tax liability. Casa management should submit a plan to DCFS showing how the Agency will repay this liability without using current period foster care funds.

**Recommendations**

4. **DCFS management ensure that foster care funds are not used to pay penalties and interest.**
5. **Casa management submit a plan to DCFS showing how they will repay its prior years' taxes without using current period foster care funds.**

**CASA'S FINANCIAL CONDITION**

Casa's 2008 audited financial statements indicated an operating loss of \$57,168 and negative net assets of \$115,993. The 2010 unaudited financial statements indicated negative net assets of \$99,648 and an operating surplus of \$7,730. Although Casa

reported a small surplus in 2010, it is still questionable how Casa will pay its \$16,756 in delinquent federal payroll taxes, penalties, and interest, and other outstanding liabilities, or offset any future operating losses that may occur, while also providing an adequate level of care to placed children.

Agency management should develop a plan demonstrating how it will address its financial issues, while still providing quality services to children. DCFS must carefully monitor the Agency to ensure that service quality is maintained at an acceptable level.

**Recommendations**

6. Casa management develop a plan demonstrating how it will address its financial issues, while still providing quality services to children.
7. DCFS management carefully monitor the Agency to ensure that service quality is maintained at an acceptable level.

**POTENTIAL DCFS OVERPAYMENTS**

DCFS' records show some potential overpayments to Casa. DCFS and the Agency should work together to resolve the potential overpayments, and DCFS should collect any verified amounts. Casa management should also ensure that any future payment discrepancies are immediately reported to DCFS, and any excess amounts are repaid promptly.

**Recommendations**

8. DCFS work with Casa to resolve the potential overpayments, and collect any verified overpayments.
9. Casa management ensure that future payment discrepancies are immediately reported to DCFS, and any excess amounts are repaid promptly.

**CONTRACT COMPLIANCE AND INTERNAL CONTROLS**

We noted several contract compliance issues and internal control weaknesses. DCFS should ensure that Casa management takes action to address each of the contract compliance and internal control recommendations in this report. DCFS should also monitor to ensure the actions result in permanent changes.

**Accounting and Disbursements**

During our review, we noted the following weaknesses in the Agency's accounting and disbursement procedures:

- Seventeen (28%) of 60 cancelled checks were made payable to "cash". A-C Handbook Section B.2.1 states that checks should not be made payable to "cash".
- Three (5%) of 60 expenditure items reviewed were not properly classified on the general ledger. For example, one payment was classified as "food expense" when the invoice indicated that it was a lease payment for office equipment.

**Recommendations**

**Casa management:**

- 10. Ensure checks are not made payable to "cash".**
- 11. Ensure that expenditures are properly classified in the general ledger.**

**Payroll/Personnel Records**

CDSS-MPP Section 11-402 requires that supporting documentation be maintained for all Program expenditures, including employee salary rates. We reviewed 11 employee personnel files, and noted that ten personnel files did not contain the employees' current authorized salary rates. However, we determined the employees' salaries were reasonable based on the Child Welfare League of America (CWLA) Salary Study.

**Recommendation**

- 12. Casa management ensure personnel files contain current salary rates approved by management.**

**Independent Contractors**

A-C Handbook Section A.2.6 requires contractors to comply with federal and State requirements for filing 1099 (Miscellaneous Income) Forms. We reviewed payments to five contractors, and noted two instances where the amounts reported on the 1099s did not agree with the Agency's general ledger. For one contractor, the 1099 under-reported the amount paid to the contractor by approximately \$10,000. Casa also did not issue 1099s to two other contractors. Casa management should ensure that all payments to independent contractors are properly reported to federal and State taxing agencies by completing 1099s.

**Recommendation**

- 13. Casa management ensure that all payments to independent contractors are properly reported to federal and State taxing agencies by completing 1099 Forms.**

**Fixed Assets Inventory**

A-C Handbook Section B.4.2 states that a current listing of fixed assets should include the item description, serial number, date of purchase, acquisition cost, and source(s) of funding. In addition, agencies should conduct an inventory of all fixed assets at least annually, to ensure that fixed assets are accounted for, and maintained in proper working order. The Agency did not maintain a fixed assets listing, and did not conduct an inventory of the fixed assets.

**Recommendations****Casa management:**

14. Prepare and maintain a fixed asset listing that includes the item description, serial number, date of purchase, acquisition cost, and source(s) of funding.
15. Conduct an inventory of all fixed assets at least once a year to ensure that all fixed assets are accounted for and maintained in proper working order.

**Semi-Annual Expenditure Report**

The GH Contract requires agencies to prepare and submit Semi-Annual Expenditure Reports by September 1st for the period ending June 30th, and by March 1st for the period ending December 31st. Timely submission is important to allow DCFS to review the Agency's revenues and expenditures, and identify unexpended funds.

We reviewed the Semi-Annual Expenditure Reports for calendar year 2010, and noted that Casa did not submit them timely. Both reports were submitted to DCFS in May 2011.

**Recommendation**

16. Casa management submit the Semi-Annual Expenditure Reports to DCFS in a timely manner.





PHILIP L. BROWNING  
Director

County of Los Angeles  
**DEPARTMENT OF CHILDREN AND FAMILY SERVICES**

425 Shatto Place, Los Angeles, California 90020  
(213) 351-5602

Attachment II

April 17, 2012

Edith Avanzado, Executive Director  
Casa Editha Foundation  
1756 N. Hill Avenue  
Pasadena, CA 91104

Dear Ms. Avanzado

**AUDITOR-CONTROLLER'S FISCAL REVIEW OF CASA EDITHA FOUNDATION (dba AVA LYN'S GROUP HOME) - A GROUP HOME FOSTER CARE CONTRACT PROVIDER**

The Auditor-Controller Department has determined that foster care contractors should not be permitted to use current period contract funds to repay the delinquent payroll taxes. Therefore, the total of \$20,216 remains disallowed and must be repaid to DCFS.

Please contact the Los Angeles County Treasurer and Tax Collector (TTC), by April 20, 2012 to schedule a date and time to sign a repayment agreement for the amount of \$20,216. The terms of the repayment agreement would be determined and negotiated with TTC. Please contact:

Fernando Rubio Jr., Operations Chief  
Los Angeles County Treasurer and Tax Collector Revenue and Enforcement  
225 N. Hill Street Room 122  
Los Angeles, CA 90012  
(213) 893-7968  
frubio@ttc.lacounty.gov

If you have any questions, please contact Ali Gomaa-Mersal, Financial Specialist IV, at (213) 351-3209.

Sincerely,

Latisha Thompson, ASM III  
Fiscal Monitoring and Special Payments

Attachments

- c: Mike McWatters, Chief Accountant-Auditor (via electronic mail only)  
Sandra Gomez, Principal Accountant-Auditor (via electronic mail only)

*"To Enrich Lives Through Effective and Caring Service"*

Board of Supervisors  
GLORIA MOLINA  
First District  
MARK RIDLEY-THOMAS  
Second District  
ZEV YAROSLAVSKY  
Third District  
DON KNABE  
Fourth District  
MICHAEL D. ANTONOVICH  
Fifth District



**CASA EDITHA FOUNDATION (dba AVA LYN'S GROUP HOME) - A GROUP HOME  
FOSTER CARE CONTRACT PROVIDER – FISCAL REVIEW**

**Note:** Department of Children and Family Services (DCFS) will only review documentation not previously provided to the Auditor-Controller.

**Summary of Recommendations**

Based on the FCAP dated March 22, 2012 submitted by Casa Editha Foundation, status of each recommendation is summarized as follows:

- 16 Recommendations (1 -16) were fully addressed.
- - Recommendation ( ) was partially addressed.
- 4 Recommendations (1, 4, 7 and 8) directed to the Department were addressed.

**Recommendation Status**

1. **DCFS management resolve the \$20,216 (\$15,331 + \$4,885) in questioned expenditures and collect any disallowed amounts.**

**Agency Proposed FCAP:** Casa Editha Foundation dba AVA-LYN's GROUP HOME will provide additional documentation and if documentation is inappropriate, agency will arrange for repayment plan.

**DCFS Response:** The Auditor-Controller Department has determined that foster care contractors should not be permitted to use current period contract funds to repay the delinquent payroll taxes. Therefore, the total of \$20,216 remains disallowed and must be repaid to DCFS.

Please contact the Los Angeles County Treasurer and Tax Collector (TTC), by April 20, 2012 to schedule a date and time to sign a repayment agreement for the amount of \$20,216. The terms of the repayment agreement would be determined and negotiated with TTC. Please contact:

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Los Angeles County Treasurer and Tax Collector Revenue and Enforcement  
225 N. Hill Street Room 122  
Los Angeles, CA 90012  
(213) 893-7968  
frubio@ttc.lacounty.gov

2. **Casa management ensure that foster care monies are used only for allowable expenditures to carry out the purpose and activities of the Agency's GH program.**

**Agency Proposed FCAP:** Casa Editha Foundation dba AVA-LYN's GROUP HOME will ensure that foster care funds will be used only for allowable expenditures for the agency.

**DCFS Response:** Please submit Board-approved policies/procedures that ensure compliance with the recommendation.

3. **Casa management maintain adequate supporting documentation for all Agency expenditures, including original itemized invoices and receipts.**

**Agency Proposed FCAP:** Casa Editha Foundation dba AVA-LYN's GROUP HOME will maintain and keep all supporting documentation for all allowable expenditures related to program cost. This will include original itemized invoices, receipts, contracts and any other original proof of payment.

**DCFS Response:** DCFS accepts the agency's response. Please submit Board-approved policies/procedures that ensure compliance with the recommendation.

4. **DCFS management ensure that foster care funds are not used to pay for penalties and interest.**

**Agency Proposed FCAP:** Casa Editha Foundation dba AVA-LYN's GROUP HOME will strictly monitor billings and invoices and make sure payment is made on a timely to avoid penalties and interest which is unallowable expense by the DCFS.

**DCFS Response:** DCFS accepts the agency's response. Please submit Board-approved policies/procedures that ensure compliance with the recommendation. Please note that OMB Circular A-122 Sections 16 and 23 indicate that penalties and interest expenses are unallowable expenditures.

5. **Casa management submit a plan to DCFS showing how they will repay its prior years' taxes without using current period foster care funds.**

**Agency Proposed FCAP:** Casa Editha Foundation dba AVA-LYN's GROUP HOME through its Executive Director that a loan option will be considered or will deduct a certain amount to its Executive Director's monthly salary appropriate enough to cover the repayment of prior year's taxes on a monthly basis.

**DCFS Response:** DCFS accepts the agency's response. Please submit Board-approved policies/procedures that ensure compliance with the recommendation.

Please note that OMB Circular A-122 Sections 16 and 23 indicate that penalties and interest expenses are unallowable expenditures.

6. **Casa management develop a plan demonstrating how it will address its financial issues, while still providing quality services to children.**

**Agency Proposed FCAP:** Casa Editha Foundation dba AVA-LYN's GROUP HOME ensure compliance with the recommendations, a loan option was discussed and being considered.

**DCFS Response:** DCFS accepts the agency's response. Please submit Board-approved policies/procedures that ensure compliance with the recommendation. Fiscal Monitoring Section will work with Out of Home Care Division to monitor Casa Editha level of care.

7. **DCFS management carefully monitor the Agency to ensure that service quality is maintained at an acceptable level.**

**Agency Proposed FCAP:** Casa Editha Foundation dba AVA-LYN's GROUP HOME will ensure the continuity of providing quality services to the children at an acceptable level based on State regulations set forth by securing loan if necessary.

**DCFS Response:** DCFS accepts the agency's response. Please submit Board-approved policies/procedures that ensure compliance with the recommendation. Fiscal Monitoring Section will work with Out of Home Care Division to monitor Casa Editha level of care.

8. **DCFS work with CASA to resolve and collect any verified overpayments.**

**Agency Proposed FCAP:** Casa Editha Foundation dba AVA-LYN's GROUP HOME will establish an account receivable ledger to minimize any future DCFS overpayment and will return any payment to DCFS for any overpayment.

**DCFS Response:** DCFS accepts the agency's response. Please submit Board-approved policies/procedures that ensure compliance with the recommendation.

9. **Casa management ensure that future payment discrepancies are immediately reported to DCFS and any excess amounts are repaid promptly.**

**Agency Proposed FCAP:** Casa Editha Foundation dba AVA-LYN's GROUP HOME will resolve any issues of overpayment and proper reporting will be made to DCFS and will sign a repayment agreement should overpayment occurred.

**DCFS Response:** DCFS accepts the agency's response. Please submit Board-approved policies/procedures that ensure compliance with the recommendation.

10. **Casa management ensure checks are not made payable to "cash".**

**Agency Proposed FCAP:** Casa Editha Foundation dba AVA-LYN's GROUP HOME will NO longer issue any checks made payable to CASH immediately.

**DCFS Response:** DCFS accepts the agency's response. Please submit Board-approved policies/procedures that ensure compliance with the recommendation.

11. **Casa management ensure that expenditures are properly classified in the general ledger.**

**Agency Proposed FCAP:** Casa Editha Foundation dba AVA-LYN's GROUP HOME will ensure application of proper bookkeeping system and proper assignment of the chart of accounts and postings to ensure easy identification of expense as posted to the general ledger.

**DCFS Response:** DCFS accepts the agency's response. Please submit Board-approved policies/procedures that ensure compliance with the recommendation.

12. **Casa management ensure personnel files contain current salary rates approved by management.**

**Agency Proposed FCAP:** Casa Editha Foundation dba AVA-LYN's GROUP HOME will establish a procedure/form that will document any salary rate increase/decrease for all employees. This procedure/form will be available on all employees' personnel file. In addition new procedure/form will be signed and dated by the employee with the approval of the Executive Director.

**DCFS Response:** DCFS accepts the agency's response. Please submit Board-approved policies/procedures that ensure compliance with the recommendation.

13. **Casa management ensure that all payments to independent contractors are properly reported to federal and State taxing agencies by completing 1099 Forms.**

**Agency Proposed FCAP:** Casa Editha Foundation dba AVA-LYN's GROUP HOME will review and updates all the independent contractors' contract and documentation to ensure compliance.

**DCFS Response:** DCFS accepts the agency's response. Please submit Board-approved policies/procedures that ensure compliance with the recommendation.

14. **Casa management prepare and maintain a fixed asset listing that includes the item description, serial number, date of purchase, acquisition cost and source(s) of funding.**

**Agency Proposed FCAP:** Casa Editha Foundation dba AVA-LYN's GROUP HOME will prepare and maintain fixed asset listings that includes the item description, serial number, date of purchase, acquisition cost and source(s) of funding.

**DCFS Response:** DCFS accepts the agency's response. Please submit Board-approved policies/procedures that ensure compliance with the recommendation.

15. **Casa management at least annually, conduct an inventory of all fixed assets to ensure that all fixed assets are accounted for and maintained in proper working order.**

**Agency Proposed FCAP:** Casa Editha Foundation dba AVA-LYN's GROUP HOME will conduct at least annually an inventory of all fixed assets to ensure that all fixed assets are accounted for and maintained in proper working order.

**DCFS Response:** DCFS accepts the agency's response. Please submit Board-approved policies/procedures that ensure compliance with the recommendation.

16. **Casa management submit the Semi-Annual Expenditure Reports to DCFS in a timely manner.**

**Agency Proposed FCAP:** Casa Editha Foundation dba AVA-LYN's GROUP HOME will ensure submission of the Semi-Annual Expenditure report to DCFS within 60 days after the end of each semi-annual reporting period as required by the GH contracts with DCFS.

**DCFS Response:** DCFS accepts the agency's response. Please submit Board-approved policies/procedures that ensure compliance with the recommendation.